

# City of Redmond

## Cash Management Program

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# Cash Management - What is it?

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- Managing the city's cash position by ensuring money is available to meet daily, weekly, and monthly financial needs
- Investing cash that is not currently needed for operations and capital
  - Investments structured to meet both short-term and long-term needs
- Negotiating banking services agreements necessary to transact city business (e.g. lockbox, custody services, wire transfers and general bank accounts.)



# How is the City's cash managed?

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- Governed by State law and the city's Investment Policy
- Investment Policy approved by City Council
  - Policy requires use of "Prudent Person Standard"
  - Provides guidance for city staff when investing the city's financial assets
  - Provides information to any brokers or financial institutions with which the city invests



# Investment Policy Objectives

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- In Priority Order:
  - Safety of principal
  - Liquidity of funds
  - Return on investment



# Safety of Principal

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- Highest priority objective as it seeks to preserve capital
- Investments are diversified to minimize risk exposure
- Third party trustee bank used for settlement and payments



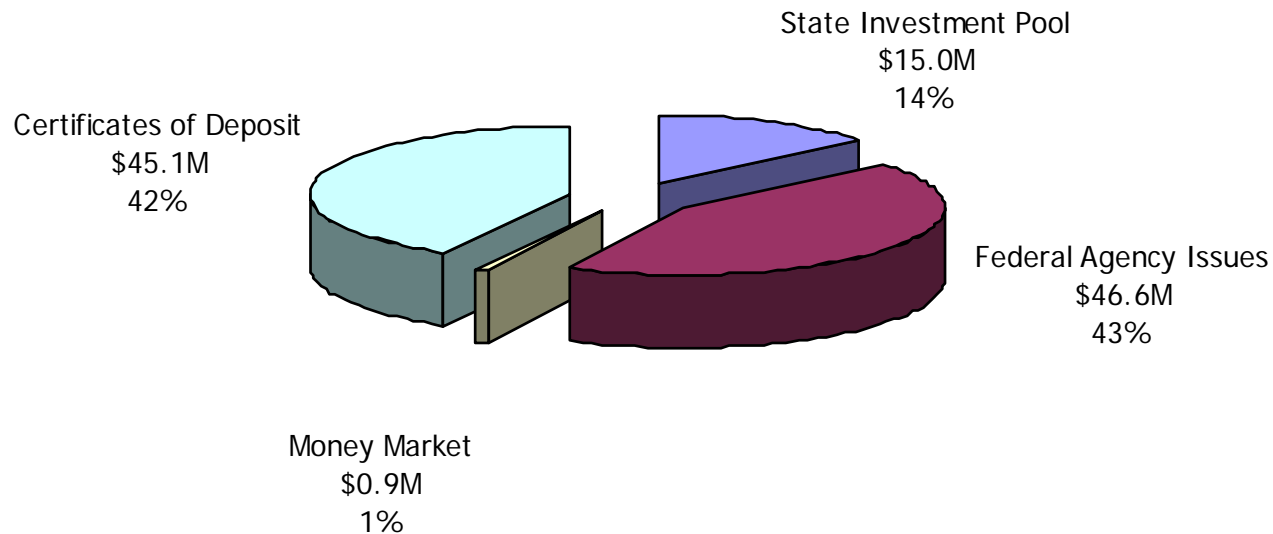
# Safety of Principal continued

Investments are diversified by type of security, issuer and maximum holdings allowed.

<u>Type of Security</u>	<u>Maximum Holdings</u>
Certificates of Deposit	50% of Portfolio 10% per Issuer 20% of Issuer's Net Worth
U.S. Treasury Notes, Bonds or Certificates	100% of Portfolio
Federal Agency Issues	100% of Portfolio
Bankers Acceptances	25% of Portfolio, 10% per Issuer
State of Washington or Local Government Bonds	25% of Portfolio 10% per Issuer
Repurchase Agreements	25% of Portfolio, 25% per Dealer
State Investment Pool	100% of Portfolio
Commercial Paper	10% of Portfolio, 10% per Issuer
Mutual Funds	Arbitrage Related Only
Other Authorized Investments	10% of Portfolio

# Redmond's Investment Portfolio

As of 4/30/04  
\$107.6M





# Liquidity of Funds

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- City invests to match maturities with anticipated cash flow requirements
- Portfolio maturities are laddered to provide for continuous cash flow
  - Overnight funds invested with the State Investment Pool
  - Longer maturing investments are purchased with 6 month to 3 year time horizons





# Return on Investments

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- The risk of each investment is evaluated before considering the return
- Comparisons are made between investments to ensure competitive rates of return
- Goal is to meet or exceed a performance standard:
  - Prior to 2001 the city benchmarked to the 6 month Treasury bill
  - The current benchmark is the 2 year average of the 2-Year Treasury Note



# Investment Returns

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## Annual Interest Received

	1995	1999	2003
Average Annual Return	5.91%	5.43%	2.55%
Benchmark - 6-mo T-Bill	5.94%	4.78%	1.17%
Benchmark - 2 yr T-Note	N/A	N/A	2.65%
Total Annual Interest	\$2.5M	\$4.1M	\$3.5M



# Portfolio/Cash Balance History

## Cash Balances as of December 31

\$'s in millions

Category	1995	1999	2003
General Capital Projects	\$ 15.5	\$ 34.9	\$ 49.7
Utility Operations and CIP	11.2	19.9	31.9
Reserves: General Operations	3.5	4.9	5.4
Reserves: Equipment Replacement	3.5	4.3	7.7
Special Revenues	3.3	1.8	2.6
General Fund	7.0	15.8	5.9
Internal Service	1.1	1.8	2.4
Debt Service	3.7	2.6	1.4
Trust & Agency	0.2	0.2	0.7
	<u>\$ 49.0</u>	<u>\$ 86.2</u>	<u>\$ 107.7</u>



## Portfolio/Cash Balance History continued

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### General Capital Projects

- Increases between 1995 and 2003 due to:
  - Business Tax Surcharge instituted in 1997
  - Transferring \$1.1M of Sales Tax on Construction beginning in 1997
  - Increased contribution from the General Fund
    - From 4% to 5% in 1995
  - Large transfers from the General Fund for City Hall
  - Carryover of unexpended funds (details to be provided on Tuesday night)



## Portfolio/Cash Balance History continued

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### Utility Funds

- Higher balances in the Utility funds are due to:
  - Stormwater management CIP surcharge beginning in 2000 and expiring at the end of 2004
  - Urban Planned Developments coming on line.
  - Carryover of unexpended capital funds (details to be provided on Tuesday night)



# Portfolio/Cash Balance History continued

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## Two types of Reserves

- General Operations (\$5.4M)
  - Reserve balance has increased from 1995 to 2003 consistent with the growth in General Fund revenues
  - Reserves as a % of General Fund revenue reduced from 10% to 8.5% in 2003
- Equipment Replacement (\$7.7M)
  - Increases primarily due to growth and cost of replacing the city's fleet as well as higher funding levels for general capital equipment



## Portfolio/Cash Balance History continued

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### General Fund

- Highly sensitive to changes in the economy
- Decline due to higher cost of doing business during the last several years of decreasing revenues



## Portfolio/Cash Balance History continued

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### Internal Service Fund

- Increases due primarily to the creation of the Information Technology fund in 1997





## Portfolio/Cash Balance History continued

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### Debt service

- Decline due to less monies required in the LID Guaranty Fund as bonds are paid off
  - 1995 outstanding LID's, \$6.1M
  - 2003 outstanding LID's, \$1.7M



# Summary

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- The city's investment portfolio has increased from \$49.0 million in 1995 to \$107.7 million at the end of 2003
- Major increases in the city's portfolio are due to higher balances in the Capital Investment Program and Utilities
- The cash balance in the General Fund has declined since 1995